

Message Text

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ACTION EA-12

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EB-08 FRB-03 INR-10 NSAE-00 USIA-06 TRSE-00
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C O N F I D E N T I A L PEKING 481

E.O. 11652: XGDS-2
TAGS: ETRD ECON KN

SUBJ: NORTH KOREAN ECONOMY AND TRADE IN 1977

REF: 77 PEKING A-106

1. SUMMARY. USLO HAS RECEIVED FROM A EUROPEAN DIPLOMAT STATIONED IN PEKING A MEMORANDUM ON DPRK ECONOMY COVERING FIRST THREE QUARTERS OF 1977, TOGETHER WITH DIPLOMAT'S COMMENTS ON MORE RECENT DEVELOPMENTS. ACCORDING TO MEMO, LARGE NUMBERS OF INDUSTRIAL WORKERS MAY HAVE BEEN TEMPORARILY TRANSFERRED TO AGRICULTURAL SECTOR IN 1977 TO OVERCOME DIFFICULTIES CAUSED BY HYDROPOWER SHORTAGES. AS A RESULT, GRAIN PRODUCTION IN 1977 MAY HAVE REACHED 8.5 MILLION TONS. OVERALL, FOREIGNERS IN PYONGYANG FELT THAT THE ECONOMIC SITUATION IN 1977, THOUGH SERIOUS, WAS SOMEWHAT IMPROVED OVER 1976. THERE IS CONTINUED PESSIMISM OVER DPRK DEBT SERVICING CAPACITY. SOVIETS HAVE REPORTEDLY INSTITUTED A SYSTEM OF PERIODIC BILATERAL TRADE MEETINGS TO
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MONITOR DPRK EXPORT DELIVERY SCHEDULES. SOURCE INDICATED DPRK CURRENT ECONOMIC STRATEGY IS TO CONCENTRATE ON GRAIN PRODUCTION AND EXTRACTIVE INDUSTRIES TO INCREASE EXPORT EARNINGS, AND TO INCREASE THERMAL POWER GENERATING CAPACITY. END SUMMARY.

2. EUROPEAN DIPLOMAT STATIONED IN PEKING HAS PROVIDED USLO WITH A COPY OF A MEMORANDUM HE PREPARED BASED ON HIS VISIT TO

PYONGYANG LAST FALL. INFORMATION IS CURRENT THROUGH END OF SEPTEMBER 1977. IN ADDITION, HE PROVIDED A FEW COMMENTS ON MORE RECENT DEVELOPMENTS.

3. MEMORANDUM REVIEWS SERIOUS PROBLEMS EXPERIENCED BY DPRK ECONOMY LAST YEAR, ESPECIALLY IN THE ENERGY SECTOR. LOSS OF HYDROPOWER PARTICULARLY AFFECTED AGRICULTURAL IRRIGATION. FORTY PERCENT OF THE INDUSTRIAL WORKFORCE IS BELIEVED TO HAVE BEEN TRANSFERRED TO THE AGRICULTURAL SECTOR FOR SEVERAL MONTHS IN 1977 TO CARRY OUT IRRIGATION BY MANUAL METHODS AND TO PROCEED WITH LAND IMPROVEMENT AND RECLAMATION PROJECTS. AS A RESULT, PROSPECTS FOR 1977 HARVEST SEEMED GOOD, AND GRAIN OUTPUT MIGHT HAVE REACHED 8.5 MILLION TONS. IF OUTPUT REACHED THIS LEVEL, 1 MILLION TONS MIGHT BE AVAILABLE FOR EXPORT.

3. OVERALL, FOREIGNERS IN PYONGYANG FELT THAT THE ECONOMIC SITUATION WAS SERIOUS, ALTHOUGH LESS SO THAN 1976, AND THERE WAS GREAT PESSIMISM ABOUT DPRK'S DEBT SERVICING CAPACITY.

4. PRC-DPRK TRADE PROTOCOL FOR 1977 CALLED FOR TOTAL TURNOVER OF 800 MILLION SWISS FRANCS (APPROXIMATELY US\$409 MILLION). THIS IS LOWER THAN LEVEL SPECIFIED IN 1976 PROTOCOL (APPROXIMATELY US\$383 MILLION). MEMORANDUM ALSO INCLUDED DPRK-PRC TRADE PROTOCOL COMMODITY BREAKDOWNS FOR 1974, 1975 AND 1976.

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5. SOURCE MADE SOME ADDITIONAL COMMENTS ABOUT CURRENT STATE OF DPRK ECONOMY. SOVIETS CONTINUE TO BE UNHAPPY ABOUT NORTH KOREAN TRADE PERFORMANCE AND THERE ARE CONTINUED (UNCONFIRMED) RUMORS OF USSR OIL CUTOFF TO PRESSURE NORTH KOREAN ADHERENCE TO TRADE PROTOCOL. IN 1977, USSR INSISTED ON INITIATING NEW PRACTICE OF PERIODIC BILATERAL TRADE MEETINGS TO MONITOR PROGRESS OF DELIVERY SCHEDULES AT FIRST, THE PLAN WAS TO HOLD THESE MEETINGS QUARTERLY, BUT LATER MONTHLY MEETINGS FINALLY MEETINGS EVERY TEN DAYS WERE INSISTED ON BY THE SOVIET SIDE.

6. SOURCE TENDED TO DISCOUNT RUMOR OF \$100 MILLION LINE OF CREDIT BEING OFFERED BY BANK OF CHINA TO NORTH KOREA (SEE PEKING 332)

HE SAID THAT HE RAISED SUBJECT DURING A COURTESY CALL AT THE BANK OF CHINA, AND THE OFFICIAL'S REPLY WAS "THAT IS NOT LIKELY." SOURCE FELT THAT RUMOR, IF TRUE, COULD EVENTUALLY BE CONFIRMED WITH THE BANK OF ENGLAND. SOURCE SAID THAT, AS A RESULT OF NORTH KOREAN DEBT SERVICING PROBLEMS, WHICH ARE STILL SERIOUS, SEVERAL EUROPEAN COUNTRIES ARE REFUSING TO MAKE ANY FURTHER EQUIPMENT DELIVERIES UNLESS NORTH KOREANS AT LEAST PAY OUTSTANDING INTEREST. IN SOME EUROPEAN COUNTRIES, NORTH

KOREAN DEBT HAS BEEN TAKEN OVER BY EXPORT CREDIT GUARANTEE
BOARDS. IN THOSE PAYMENTS PYONGYANG HAS MADE, THE NORTH
KOREANS SEEM TO BE GIVING PRIORITY TO PRIVATE FIRMS WHICH
STILL HOLD DEBTS, AS OPPOSED TO GOVERNMENT AGENCIES.

7. APPARENTLY PYONGYANG'S CURRENT ECONOMIC STRATEGY IS TO
CONCENTRATE DOMESTIC ECONOMIC EFFORT ON GRAIN PRODUCTION AND
EXTRACTIVE INDUSTRIES IN ORDER TO INCREASE EXPORT EARNINGS.
IN THE MINING SECTOR, PRIORITIES ARE IRON ORE, MAGNESIUM AND
COAL. ALSO THE NORTH KOREANS ARE TRYING TO INCREASE THERMAL
POWER GENERATING CAPACITY IN ORDER TO REDUCE RELIANCE ON
HYDROPOWER.

8. MEMORANDUM BEING POUCHED TO ADDRESSEES UNDER COVER OF
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AIRGRAM.
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